



City of Fairfax, Virginia
City Council Work Session Meeting

Agenda Item # 12d
City Council Meeting 6/14/11

TO: Honorable Mayor and Members of City Council

FROM: Robert Sisson, City Manager *RS*

SUBJECT: Discussion of options available to the City for the use of unspent funds from the 2005 Library Project financing.

ISSUE(S): Inform Council and discuss options available for the use of unspent funds from the 2005 Library Project financing.

SUMMARY: The City of Fairfax and Fairfax County entered into an agreement in August 2005 to finance, design and construct a new regional library (library) in the City's downtown area. Under the agreement the City financed, designed and constructed the library, while the County agreed to forgive the City's share of the annual operating costs of the library up to the amount of the debt service payments on the City's loan and take possession of and operate the library upon substantial completion.

The library was substantially completed January 2009, at which time the County took possession and moved operations from the old library site to the new facility. Remaining contractor issues are now resolved and final payments have been made bringing the Library Project to a close. The final cost to finance (including the pro-rata share of the costs of issuance and the legally required reserve fund), design and construct the library is \$20,542,413, \$2,397,587 under the financed budget of \$22,940,000. City and County staff, and legal counsel have reviewed the agreement and have determined the unspent available funds of \$2,397,587 should be allotted to the City.

The attached memo summarizes options available to the City for the use of the unspent library project funds.

FISCAL IMPACT: None.

RECOMMENDATION: Discuss the information presented and direct staff to move forward with one or more of the available options for the use of unspent library funds.

ALTERNATIVE COURSE OF ACTION: Request additional information and provide staff direction at a later date.

RESPONSIBLE STAFF/
POC: David Hodgkins, Assistant City Manager, David Hudson, Director of Community Development & Planning, David Summers, Director of Public Works

COORDINATION:

Robert Sisson, City Manager, Brian Lubkeman, City Attorney, Geoff Durham, Economic Development Manager, Davenport & Co. LLC, Financial Advisors, Hunton & Williams, Bond Counsel.

ATTACHMENTS:

Memo, Map of Old Town, Original Amortization Schedule, Adjusted Amortization Schedule, list of potential capital projects.

MEMO

To: Robert Sisson, City Manager

From: David Hodgkins, Assistant City Manager/Director of Finance

Date: June 6, 2011

Subject: Unspent Funds from 2005 Library Project Financing

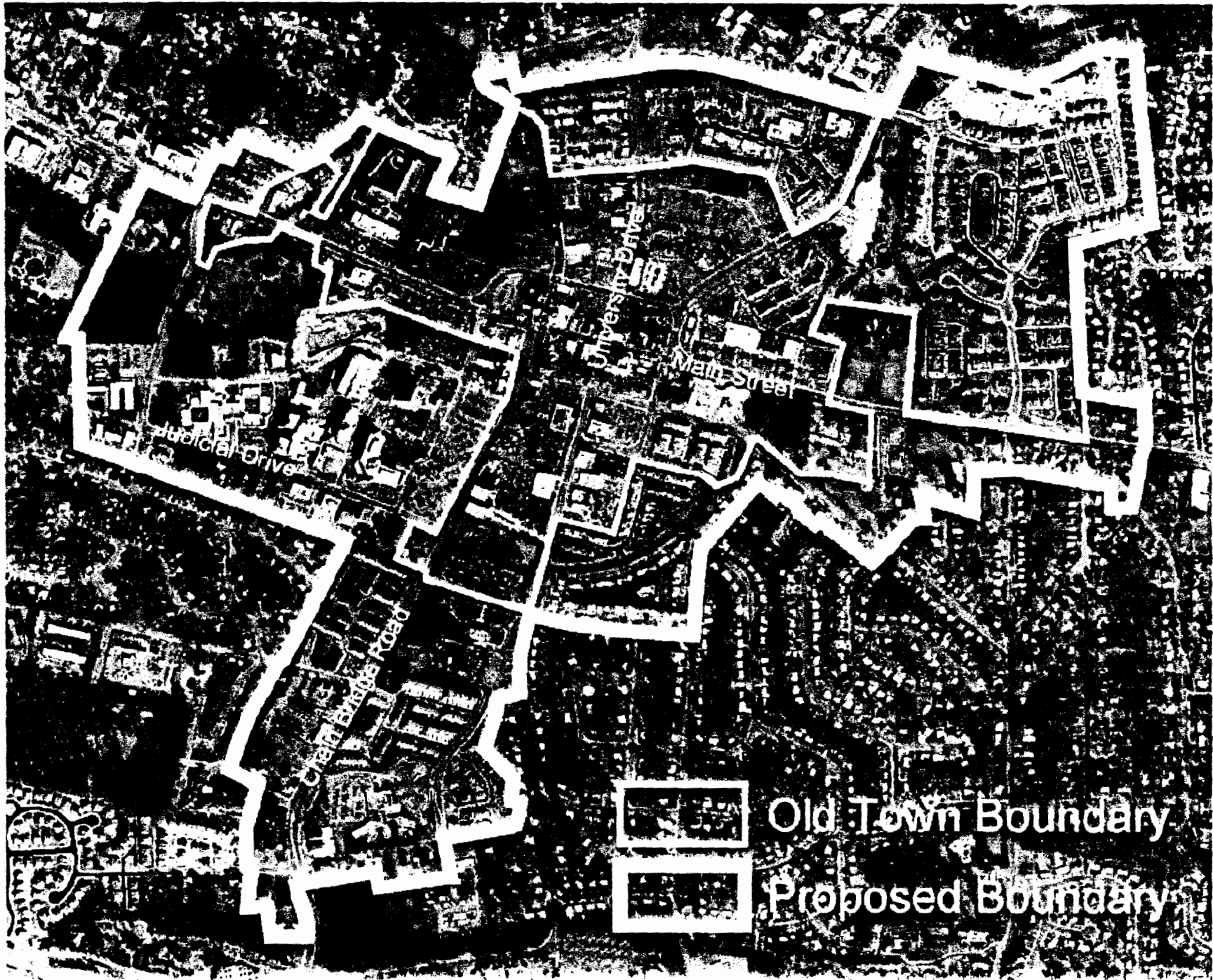
The City financed the construction of the new library in 2005 (2005 Economic Development Authority "EDA" financing) under an agreement with Fairfax County. After long delays in resolving numerous outstanding issues with the general contractor, library construction and expenditures are now final, resulting in \$2.39 million of the original \$22.94 million project funds remaining unspent and available. The excess funds are the outcome of large contingencies budgeted for the design and construction of the project, much of which, as a result of stable market conditions, was not needed. The library contract does not specifically address the distribution/use of remaining funds between the City and the County. As the project is now finally complete, City and County staff met to discuss project closure and the options for and ownership of the remaining funds. Both City and County staff are in agreement that the unspent funds should be allotted to the City, and formal letters of acknowledgement will be exchanged in the near future.

Though the unspent funds are available for City use, the bond financing documents and federal tax laws also set restrictions on the use of the unspent bond funds. The points listed below give the parameters/options for the use of the unspent library funds:

1. The unspent funds may be used for redevelopment projects in the downtown, one of the original purposes of the 2005 financing. The definition is broad allowing the City to pursue a wide variety of projects so long as they can fairly be described as "downtown redevelopment improvements" in the area considered the "downtown location". Such projects must be capital projects, and hence downtown maintenance projects do not qualify (i.e. downtown brick sidewalk repair). See attached map for areas that can reasonable be considered the downtown.
2. The purpose of the financing is exclusively for the design, construction and furnishing of the library, and redevelopment projects in the downtown. However, in addition to the more specific redevelopment project purpose already authorized, the City, with consent of the Trustee and the EDA, may amend the existing agreements to allow the unspent funds to be used for other capital projects outside the downtown area.
3. The unspent funds **cannot** be used to offset FY 2012 budget expenditures as the FY 2012 CIP projects do not fall within appropriate uses of the funds.
4. The County and the City have agreed that the library project is complete, and no additional funds from the financing (now or in the near future) are required for the library project.

5. City staff **does not** recommend unspent monies be applied to pay future annual debt service payments on the 2005 bonds since staff is of the opinion that it may be challenging to demonstrate these funds qualify under federal tax regulations as “unexpected excess gross proceeds.”
6. The unspent bond funds may be placed in escrow until the first date when the bonds can be optionally called (January 2015). There are some economic inefficiencies associated with this strategy since the City will likely experience negative arbitrage equivalent to several hundred thousand dollars in the investment earnings, given the current low reinvestment rates. Also, if the monies are set aside in escrow to call bonds in the future, the amortization schedule may be required to be adjusted downward (per the Library Agreement with the County), which could trigger or require the City to pay the County for library operational costs which otherwise would not have been due.
7. The federal tax laws contemplate that bond proceeds will be spent quickly, typically within three years of issuance. The longer the City holds unspent proceeds after that three year mark, the more likely the City may risk tax complications on the financing.

Map LU-2
Old Town Fairfax



Attachment I

City of Fairfax, Virginia
2005 Economic Development Authority Lease Revenue Bonds
Adjusted Library Debt Schedule for Fairfax County GSA
20-May-11

| A | | | | | B | | C | | D | | | |
|--|-------------------|-------------------|--|------------------------|--|--------|---|--|--|-------------------|-------------------|-------------------|
| Library Portion - Un-Adjusted ⁽¹⁾ | | | | | Fairfax County Contribution ⁽¹⁾ | | Library Un-Adjusted Debt Service Over/(Under) | | Library Debt Service - Adjusted ⁽⁴⁾ | | | |
| Fiscal Year | Principal | Interest | Estimated Debt Service Reserve Fund ⁽²⁾ | Net Debt Service Total | Growth Rate | 4.351% | | | Fiscal Year | Principal | Interest | Total |
| 2006 | 0 | 439,659 | 10,091 | 428,968 | 458,851 | | (29,883) | | 2006 | 0 | 458,851 | 458,851 |
| 2007 | 0 | 946,474 | 10,342 | 936,132 | 852,150 | | 83,982 | | 2007 | 0 | 852,150 | 852,150 |
| 2008 | 155,507 | 946,474 | 3,704 | 1,098,276 | 881,322 | | 216,954 | | 2008 | 155,507 | 725,815 | 881,322 |
| 2009 | 155,507 | 941,569 | 0 | 1,097,316 | 908,145 | | 189,171 | | 2009 | 155,507 | 752,638 | 908,145 |
| 2010 | 445,785 | 937,144 | 0 | 1,382,929 | 821,844 | | 561,085 | | 2010 | 445,785 | 376,059 | 821,844 |
| 2011 | 458,744 | 923,776 | 13,837 | 1,368,677 | 775,400 | | 593,277 | | 2011 | 458,744 | 316,656 | 775,400 |
| 2012 | 474,295 | 869,435 | 13,837 | 1,369,892 | 809,141 | | 560,751 | | 2012 | 474,295 | 334,846 | 809,141 |
| 2013 | 487,254 | 894,020 | 13,837 | 1,367,437 | 844,350 | | 523,086 | | 2013 | 487,254 | 357,097 | 844,350 |
| 2014 | 505,396 | 878,184 | 13,837 | 1,369,743 | 881,092 | | 488,652 | | 2014 | 505,396 | 375,695 | 881,092 |
| 2015 | 520,947 | 860,495 | 13,837 | 1,367,605 | 919,432 | | 448,173 | | 2015 | 520,947 | 398,485 | 919,432 |
| 2016 | 539,089 | 842,262 | 13,837 | 1,367,514 | 959,440 | | 408,074 | | 2016 | 539,089 | 420,351 | 959,440 |
| 2017 | 567,599 | 815,408 | 13,837 | 1,369,069 | 1,001,190 | | 367,880 | | 2017 | 567,599 | 433,591 | 1,001,190 |
| 2018 | 596,168 | 786,928 | 13,837 | 1,369,199 | 1,044,756 | | 324,443 | | 2018 | 596,168 | 448,648 | 1,044,756 |
| 2019 | 619,434 | 763,684 | 13,837 | 1,368,681 | 1,090,218 | | 278,463 | | 2019 | 619,434 | 470,783 | 1,090,218 |
| 2020 | 642,766 | 738,366 | 13,837 | 1,367,229 | 1,137,658 | | 229,571 | | 2020 | 642,766 | 494,898 | 1,137,658 |
| 2021 | 668,678 | 712,596 | 13,837 | 1,367,437 | 1,187,162 | | 180,274 | | 2021 | 668,678 | 518,484 | 1,187,162 |
| 2022 | 702,371 | 679,162 | 13,837 | 1,367,696 | 1,238,821 | | 128,875 | | 2022 | 702,371 | 536,450 | 1,238,821 |
| 2023 | 738,656 | 644,643 | 13,837 | 1,368,862 | 1,292,728 | | 76,134 | | 2023 | 738,656 | 554,071 | 1,292,728 |
| 2024 | 774,941 | 607,110 | 13,837 | 1,368,214 | 1,348,980 | | 19,234 | | 2024 | 774,941 | 574,039 | 1,348,980 |
| 2025 | 813,818 | 568,563 | 13,837 | 1,368,344 | 1,407,680 | | (39,336) | | 2025 | 813,818 | 593,862 | 1,407,680 |
| 2026 | 847,511 | 533,776 | 13,837 | 1,367,449 | 1,468,934 | | (101,485) | | 2026 | 847,511 | 621,423 | 1,468,934 |
| 2027 | 891,571 | 491,401 | 13,837 | 1,369,134 | 1,532,854 | | (163,720) | | 2027 | 891,571 | 641,283 | 1,532,854 |
| 2028 | 935,631 | 446,822 | 13,837 | 1,368,616 | 1,599,555 | | (230,939) | | 2028 | 935,631 | 663,924 | 1,599,555 |
| 2029 | 982,283 | 400,941 | 13,837 | 1,368,486 | 1,669,159 | | (300,672) | | 2029 | 982,283 | 686,876 | 1,669,159 |
| 2030 | 1,031,527 | 356,926 | 13,837 | 1,368,616 | 1,741,791 | | (373,175) | | 2030 | 1,031,527 | 710,264 | 1,741,791 |
| 2031 | 1,083,362 | 299,356 | 13,837 | 1,368,875 | 1,817,584 | | (448,709) | | 2031 | 1,083,362 | 734,222 | 1,817,584 |
| 2032 | 1,137,789 | 245,182 | 13,837 | 1,369,134 | 1,896,675 | | (527,541) | | 2032 | 1,137,789 | 758,885 | 1,896,675 |
| 2033 | 1,194,809 | 188,292 | 13,837 | 1,369,264 | 1,979,207 | | (609,944) | | 2033 | 1,194,809 | 784,399 | 1,979,207 |
| 2034 | 1,254,419 | 128,552 | 13,837 | 1,369,134 | 2,065,331 | | (696,197) | | 2034 | 1,254,419 | 810,912 | 2,065,331 |
| 2035 | 1,316,622 | 65,841 | 1,383,730 | -1,276 | 2,155,203 | | (2,156,479) | | 2035 ⁽³⁾ | 1,316,622 | 838,581 | 2,155,203 |
| Total | 20,542,413 | 18,984,201 | | 37,786,652 | 37,786,652 | | (0) | | Total | 20,542,413 | 17,244,239 | 37,786,652 |

(1) Library Portion shown as 51.84% of Series 2005 EDA Bonds per City of Fairfax Staff.

(2) Fiscal years 2006 to 2010 are actual. Earnings thereafter are estimated at 1.0% annually.

(3) Fiscal years 2006 to 2010 are actual per City Staff. Fiscal year 2011 is budgeted.

(4) Interest adjusted up or down based upon Section C. Total debt service from applicable to the library paid over the life of the loan (Section A) is unchanged.

(5) 2035 debt service is anticipated to be paid from the portion of the Debt Service Reserve Fund allocated to the Library Project (51.84%). In this event the City will make 2035 contribution to Fairfax County.

City of Fairfax, Virginia
2005 Economic Development Authority Lease Revenue Bonds
Adjusted Library Debt Schedule for Fairfax County GSA
Version 4

Attachment II

| A | | | | | B | | C | | D | | | |
|-------------------------------|------------|------------|--|------------------------|--|--|---|--|--|------------|--------------------|------------|
| Library Portion - Un-Adjusted | | | | | Fairfax County Contribution ⁽²⁾ | | Library Un-Adjusted Debt Service Over/(Under) | | Library Debt Service - Adjusted ⁽⁴⁾ | | | |
| Fiscal Year | Principal | Interest | Estimated Debt Service Reserve Fund ⁽¹⁾ | Net Debt Service Total | Growth Rate 3.400% | | | | Fiscal Year | Principal | Estimated Interest | Total |
| 2006 | 0 | 490,303 | 31,722 | 458,581 | 458,581 | | 0 | | 2006 | 0 | 458,581 | 458,581 |
| 2007 | 0 | 1,056,941 | 38,595 | 1,018,346 | 852,150 | | 166,196 | | 2007 | 0 | 852,150 | 852,150 |
| 2008 | 173,656 | 1,056,941 | 38,595 | 1,192,002 | 881,122 | | 310,881 | | 2008 | 173,656 | 707,465 | 881,122 |
| 2009 | 173,656 | 1,051,731 | 38,595 | 1,186,793 | 911,078 | | 275,715 | | 2009 | 173,656 | 737,422 | 911,078 |
| 2010 | 497,815 | 1,046,522 | 38,595 | 1,505,741 | 942,053 | | 563,688 | | 2010 | 497,815 | 444,238 | 942,053 |
| 2011 | 512,286 | 1,031,587 | 38,595 | 1,505,278 | 974,081 | | 531,197 | | 2011 | 512,286 | 461,795 | 974,081 |
| 2012 | 529,652 | 1,015,578 | 38,595 | 1,506,635 | 1,007,198 | | 499,437 | | 2012 | 529,652 | 477,547 | 1,007,198 |
| 2013 | 544,123 | 998,365 | 38,595 | 1,503,893 | 1,041,441 | | 462,451 | | 2013 | 544,123 | 497,318 | 1,041,441 |
| 2014 | 564,383 | 980,681 | 38,595 | 1,506,469 | 1,076,848 | | 429,620 | | 2014 | 564,383 | 512,465 | 1,076,848 |
| 2015 | 581,749 | 960,927 | 38,595 | 1,504,081 | 1,113,459 | | 390,622 | | 2015 | 581,749 | 531,711 | 1,113,459 |
| 2016 | 602,009 | 940,566 | 38,595 | 1,503,980 | 1,151,315 | | 352,665 | | 2016 | 602,009 | 549,306 | 1,151,315 |
| 2017 | 633,846 | 910,466 | 38,595 | 1,505,716 | 1,190,458 | | 315,259 | | 2017 | 633,846 | 556,612 | 1,190,458 |
| 2018 | 665,683 | 878,773 | 38,595 | 1,505,861 | 1,230,931 | | 274,930 | | 2018 | 665,683 | 565,248 | 1,230,931 |
| 2019 | 691,731 | 852,146 | 38,595 | 1,505,282 | 1,272,780 | | 232,501 | | 2019 | 691,731 | 581,049 | 1,272,780 |
| 2020 | 717,779 | 824,477 | 38,595 | 1,503,661 | 1,316,053 | | 187,608 | | 2020 | 717,779 | 598,273 | 1,316,053 |
| 2021 | 746,722 | 795,766 | 38,595 | 1,503,893 | 1,360,796 | | 143,097 | | 2021 | 746,722 | 614,074 | 1,360,796 |
| 2022 | 784,348 | 758,430 | 38,595 | 1,504,182 | 1,407,061 | | 97,121 | | 2022 | 784,348 | 622,713 | 1,407,061 |
| 2023 | 824,868 | 719,212 | 38,595 | 1,505,485 | 1,454,898 | | 50,586 | | 2023 | 824,868 | 630,031 | 1,454,898 |
| 2024 | 865,387 | 677,969 | 38,595 | 1,504,761 | 1,504,362 | | 399 | | 2024 | 865,387 | 638,975 | 1,504,362 |
| 2025 | 908,801 | 634,699 | 38,595 | 1,504,906 | 1,555,508 | | (50,602) | | 2025 | 908,801 | 646,707 | 1,555,508 |
| 2026 | 946,427 | 596,075 | 38,595 | 1,503,907 | 1,608,392 | | (104,485) | | 2026 | 946,427 | 661,965 | 1,608,392 |
| 2027 | 995,630 | 548,754 | 38,595 | 1,505,788 | 1,663,075 | | (157,286) | | 2027 | 995,630 | 667,445 | 1,663,075 |
| 2028 | 1,044,832 | 498,973 | 38,595 | 1,505,210 | 1,719,616 | | (214,407) | | 2028 | 1,044,832 | 674,784 | 1,719,616 |
| 2029 | 1,096,929 | 446,731 | 38,595 | 1,505,065 | 1,778,080 | | (273,015) | | 2029 | 1,096,929 | 681,151 | 1,778,080 |
| 2030 | 1,151,920 | 391,884 | 38,595 | 1,505,210 | 1,838,532 | | (333,322) | | 2030 | 1,151,920 | 686,612 | 1,838,532 |
| 2031 | 1,209,806 | 334,288 | 38,595 | 1,505,499 | 1,901,039 | | (395,540) | | 2031 | 1,209,806 | 691,233 | 1,901,039 |
| 2032 | 1,270,585 | 273,798 | 38,595 | 1,505,788 | 1,965,671 | | (459,882) | | 2032 | 1,270,585 | 695,085 | 1,965,671 |
| 2033 | 1,334,259 | 210,269 | 38,595 | 1,505,933 | 2,032,500 | | (526,567) | | 2033 | 1,334,259 | 698,241 | 2,032,500 |
| 2034 | 1,400,828 | 143,556 | 38,595 | 1,505,788 | 2,101,601 | | (595,813) | | 2034 | 1,400,828 | 700,774 | 2,101,601 |
| 2035 | 1,470,290 | 73,515 | 1,543,805 | 0 | 2,173,052 | | (2,173,052) | | 2035 ⁽⁴⁾ | 1,470,290 | 702,762 | 2,173,052 |
| Total | 22,940,000 | 21,199,923 | | 41,483,733 | 41,483,733 | | (0) | | Total | 22,940,000 | 18,543,733 | 41,483,733 |

(1) Earnings estimated at 2.5% annually.

(2) Fiscal year 2005 value equal to debt service on bonds. Fiscal year 2006 value based on Fiscal Year 2005 estimate for total County Contribution as of September, 2005 of \$824,131.

(3) Interest adjusted up or down based upon Section C. Total debt service from applicable to the library paid over the life of the loan (Section A) is unchanged.

(4) 2035 debt service is anticipated to be paid from the Debt Service Reserve Fund. In this event the City will make 2035 contribution to Fairfax County.

MEMO

The list of potential capital projects will be inserted and delivered on Friday.